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|                                     |          |                                  |
|-------------------------------------|----------|----------------------------------|
| <b>CY 2023 REPORTS OF THE</b>       | <b>§</b> | <b>PUBLIC UTILITY COMMISSION</b> |
| <b>ELECTRIC RELIABILITY COUNCIL</b> | <b>§</b> |                                  |
| <b>OF TEXAS</b>                     | <b>§</b> | <b>OF TEXAS</b>                  |

**PETITION OF ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.  
FOR APPROVAL OF COMPENSATION FOR  
THE BOARD OF DIRECTORS**

Electric Reliability Council of Texas, Inc. (ERCOT), pursuant to Section 25.362(g)(5) of the Commission’s Substantive Rules, respectfully requests Commission approval of an increase to compensation for eligible members of the ERCOT Board of Directors (Board).

**I. BACKGROUND**

Public Utility Regulatory Act (PURA)<sup>1</sup> Section 39.151(g-2) provides: “Members of the governing body [of ERCOT] are entitled to receive a salary for their service.” Pursuant to Section 25.362(g)(5) of the Commission’s Substantive Rules, “Compensation ... to be paid to unaffiliated members of the [ERCOT] governing board shall be subject to commission review and approval.”<sup>2</sup>

Consistent with PURA, Section 10.1(b) of the *Amended and Restated Bylaws of Electric Reliability Council of Texas, Inc.* (Bylaws)<sup>3</sup> provides, in pertinent part:

The Board shall have the authority to fix the compensation of its Selected Directors who may be paid a fixed sum plus reimbursement of travel expenses for attendance at each meeting of the Board, or a stated compensation as a member thereof, or any combination of the foregoing. Selected Directors, who are members of standing or special committees, may be allowed like compensation and reimbursement of travel expenses for attending committee meetings.

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<sup>1</sup> Tex. Util. Code Ann. §§ 11.001-66.016.

<sup>2</sup> 16 Tex. Admin. Code § 25.362(g)(5) (TAC).

<sup>3</sup> In Docket No. 52933, *CY 2022 Reports of the Electric Reliability Council of Texas, Inc.*, the Commission approved the Bylaws at an Open Meeting on December 20, 2022, and issued a Commission Order consistent with the Commission’s approval on the same day.

A Selected Director, as defined in the Bylaws, is a Director who is selected in accordance with PURA § 39.1513—*i.e.*, a Director selected by the ERCOT board selection committee<sup>4</sup> that must meet the eligibility requirements of PURA §§ 39.151(g)-(g-4), including the absence of a fiduciary duty or assets in the electricity market for the ERCOT region. Compensation levels for Selected Directors are set forth in Appendix A of the Board Policies and Procedures. The Board may amend the Board Policies and Procedures at any time pursuant to Section 11.1 thereof.

The Board has delegated oversight of compensation for Selected Directors to the Human Resources and Governance (HR&G) Committee. Section (IV)(B)(1)(a)(ii) of the HR&G Committee Charter provides:

The Committee shall regularly review the Company's governance processes and governing documents, and if applicable, make recommendations to the Board regarding potential changes to the Company's governance. This review shall include ... [a]n annual review of the Board's policies and procedures addressing Director compensation.

Further, Section (V)(a)(1) provides, in pertinent part, that “[t]he Committee is empowered to investigate any matter relating to its duties and responsibilities, with ... the power to retain compensation consultants ... for this purpose.”

Compensation levels for Directors entitled to be paid for service (at the time, “Independent Directors”) were last changed by the Board at its meeting on July 17, 2012.<sup>5</sup> Compensation levels have remained unchanged for almost 11 years.<sup>6</sup>

## **II. STATEMENT OF JURISDICTION AND AUTHORITY**

The Commission has jurisdiction over this matter pursuant to 16 TAC § 25.362(g)(5).

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<sup>4</sup> See PURA § 39.1513.

<sup>5</sup> Materials for the July 17, 2012 Board meeting are available at <https://www.ercot.com/calendar/07172012-Board-of-Directors-Meeting> (see Agenda Item 10.1, Proposed Modifications to ERCOT Board Policies and Procedures).

<sup>6</sup> Director Compensation was reviewed by a task force of the HR&G Committee in December 2016, and such review resulted in no changes. Prior to 2023, the last HR&G Committee review of Director Compensation was undertaken in October 2020, and no changes to compensation levels were recommended at that time.

### III. IDENTIFICATION OF APPLICANT

The name and address of the Applicant is Electric Reliability Council of Texas, Inc., 8000 Metropolis Drive, Building E, Suite 100, Austin, Texas 78744.

The name, address, telephone, and facsimile numbers of Applicant's authorized representatives are as follows:

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Corporate Secretary  
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### IV. PROPOSED COMPENSATION INCREASE

To facilitate the HR&G Committee's annual review of Director compensation, at its February 28, 2023 meeting, the Board selected Meridian Compensation Partners (Meridian) as a compensation consultant. Meridian performed a benchmarking analysis using multiple data sources and market perspectives, including other Independent System Operators (ISOs), comparably-sized general industry companies, ERCOT Market Participants, and public companies with which ERCOT's Directors are affiliated. Based on this benchmarking analysis and other considerations including the high volume and complexity of work, recruitment considerations, and external optics and standards, Meridian, in consultation with the HR&G Committee, recommended an increase to Director compensation levels as follows, to be effective July 1, 2023 (all amounts are annual):

| Component                           | Current  | Recommended |
|-------------------------------------|----------|-------------|
| Selected Director Base Compensation | \$87,000 | \$160,000   |
| Board Chair                         | \$12,800 | \$35,000    |
| Board Vice Chair                    | \$7,500  | \$15,000    |
| Board Committee Chair               | \$5,600  | \$25,000    |

At the June 20, 2023 HR&G Committee meeting, Meridian presented the details of its analysis, a copy of which is attached hereto as *Attachment A*. Following Meridian's presentation and discussion, the HR&G Committee voted to recommend that the Board approve the increase to Director compensation levels consistent with Meridian's recommendation as set forth above, to be effective July 1, 2023. At its meeting on June 20, 2023, after being presented the HR&G Committee's recommendation, the Board voted to approve the increase to Director compensation levels as recommended by the HR&G Committee, subject to the review and approval of the Commission. A copy of the signed Board resolution is attached hereto as *Attachment B*.

## V. CONCLUSION

ERCOT respectfully requests that the Commission approve the increase to compensation for eligible members of the Board as described in this Petition and grant ERCOT all other relief to which it is entitled.

Respectfully submitted,

/s/ Jonathan Levine

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ATTORNEYS FOR ELECTRIC  
RELIABILITY COUNCIL OF TEXAS, INC.

## **Item 6: Recommendation regarding Board Compensation**

*Peggy Heeg*  
Committee Chair

*Meridian Compensation Partners*

Human Resources and Governance Committee  
Meeting

ERCOT Public  
June 20, 2023





ERCOT ■ June 2023

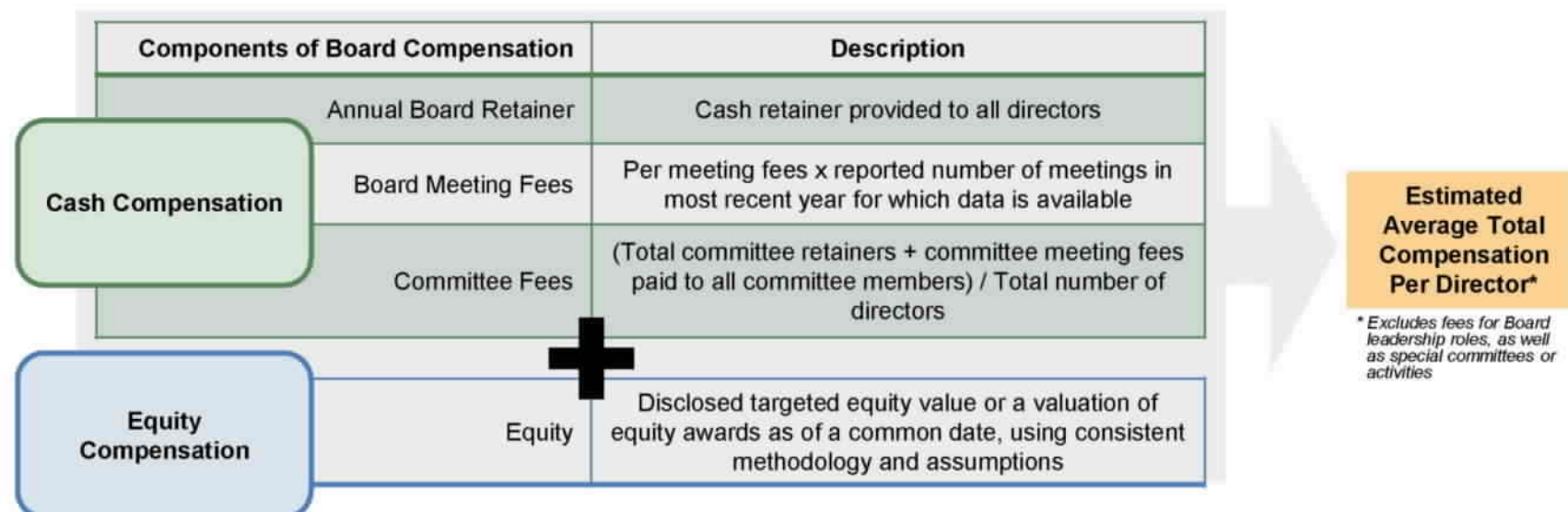
# Competitive Market Review of Board Compensation



## About This Material

**Meridian used a common and credible approach to assess competitiveness of compensation for the ERCOT Board of Directors. Key features of our methodology include:**

- Use of multiple data sources and market perspectives, including other ISOs, comparably-sized General Industry companies, Market Participants, and public companies with which ERCOT's directors are affiliated (Affiliated Companies)
- Analysis based on comparisons of the total annual compensation for an "average profile" director



- We also gathered information regarding fees for Board leadership roles



## Application of Benchmarking Data to Compensation Decisions

**Benchmarking analysis is intended to establish a competitive range of market practices, rather than determine a specific value for the ERCOT outside director pay program. Determination of an appropriate structure and value of the program should consider several factors, including:**

### **High Volume and Complexity of Work**

- ERCOT is undergoing fundamental market design changes to deal with rapid change on the grid that will require substantial discussion and action by the ERCOT Board
- There is a large volume of new, complex work resulting from legislative changes to adapt to the changing resource mix and a higher number of large loads and growing load in Texas
- These factors result in a relatively high demand on ERCOT Board members' time

### **Recruitment Considerations**

- Reasonableness: Compensation made to directors of the organization must be sufficiently competitive to attract required director talent and credible to external constituents
- Limited candidate pool: The pool of qualified candidates for the ERCOT Board is small due to Texas residency and experience restrictions and limits on certain types of candidates.
- Directors' Reputational Risk: ERCOT is a high reliability organization and service on the ERCOT Board presents a greater reputational risk compared with other corporate boards
- ERCOT Board members forego other opportunities: ERCOT Board members are restricted from having a fiduciary duty or assets in the ERCOT electric market, which limits their ability to accept other board positions or opportunities

### **External optics and standards**

- Perceptions of regulators, customers, media, etc.

## Summary Market Observations

### Company Size

- ERCOT's revenue size is positioned at the 75<sup>th</sup> percentile among the ISO peers and between the 25<sup>th</sup> and 50<sup>th</sup> percentiles of the General Industry comparator group; Market Participant and Affiliated Company comparators are generally much larger

### Pay Level

- Current average annual compensation for ERCOT's directors falls below the 25<sup>th</sup> percentile values of both the ISO peers and the General Industry comparator group, and well below the Market Participant and Affiliated Company comparator groups
- Current Total Board Cost (including Board leadership roles) is similarly positioned relative to the ISO peers and other market references
- ERCOT last made changes to director compensation in 2011

### Program Structure

- Like the other ISOs, ERCOT's program is composed entirely of cash, and the straightforward combination of retainers (Board and committee chair) is aligned with broader market trends
  - In our experience, ERCOT differs from other ISO comparators in not providing meeting fees (Board or committee meetings)
  - Most public company comparators provide cash and equity, and only a minority provide meeting fees

## Considerations

- Given the current program's competitive positioning relative to the market comparator groups (the ISO peers and General Industry, in particular), active director recruiting efforts, and other relevant factors, the ERCOT Board may consider increasing the level of annual compensation
  - The following page provides ranges for consideration
- ERCOT should continue to monitor the overall structure and competitiveness of the program relative to appropriate market references and emerging trends
  - We suggest that ERCOT conduct competitive reviews versus market references every two years and consider changes, as warranted



## Considered Program Changes

Based on the results of the competitive benchmarking analysis, Meridian developed a range of potential program changes for consideration by the HR&G Committee and the full Board of Directors.

- The considered ranges generally reflect positioning near the 75<sup>th</sup> percentile among the other ISOs and between the 25<sup>th</sup> and 50<sup>th</sup> percentiles among the General Industry comparator companies; considers size (by revenues) and organizational complexity
- While common among the other ISOs, meeting fees have become a minority practice for public company boards; in the interest of maintaining simplicity and transparency, the addition of meeting fees was not considered
- For context, the considered ranges remain well below pay levels for directors on the boards of market participants and other public companies

| Program Component   | Current          | Considered Ranges  |                    |
|---|------------------|--------------------|--------------------|
|   |                  | Low                | High               |
| <b>Total Board Compensation</b><br><i>(Average, excludes Board Chair, Vice Chair roles)</i> | <b>\$89,100</b>  | <b>~\$132,000</b>  | <b>~\$176,000</b>  |
| <b>Annual Board Retainer</b>  | \$87,000         | \$125,000          | \$165,000          |
| <b>Board/Committee Meeting Fees</b>   | \$0              | \$0                | \$0                |
| <b>Committee Chair Retainers</b>  |                  |                    |                    |
| • Finance and Audit (F&A)   | \$5,600          | \$25,000           | \$35,000           |
| • HR and Governance (HR&G)  | \$5,600          | \$15,000           | \$25,000           |
| • Reliability and Markets (R&M)   | \$5,600          | \$15,000           | \$25,000           |
| <b>Committee Member Retainers</b>   | \$0              | \$0                | \$0                |
|   |                  |                    |                    |
| <b>Board Leadership Roles</b>   |                  |                    |                    |
| • Board Chair Retainer  | \$12,800         | \$25,000           | \$35,000           |
| • Vice Chair Retainer   | \$7,500          | \$10,000           | \$15,000           |
|   |                  |                    |                    |
| <b>Total Board Cost</b><br><i>(Includes Board Chair, Vice Chair roles)</i>                  | <b>\$733,100</b> | <b>\$1,090,000</b> | <b>\$1,455,000</b> |

## Recommended Program Changes

Meridian recommends changes to ERCOT's outside director program, as summarized in the table below.

| Program Component  | Current          | Recommended        |
|--|------------------|--------------------|
| <b>Total Board Compensation</b><br><i>(Average per director; excludes Board Chair, Vice Chair)</i> | <b>\$89,100</b>  | <b>\$169,375</b>   |
| <b>Annual Board Retainer</b>   | \$87,000         | \$160,000          |
| <b>Board/Committee Meeting Fees</b>  | \$0              | \$0                |
| <b>Committee Chair Retainers</b>   |                  |                    |
| • Finance and Audit (F&A)  | \$5,600          | \$25,000           |
| • HR and Governance (HR&G)   | \$5,600          | \$25,000           |
| • Reliability and Markets (R&M)  | \$5,600          | \$25,000           |
| <b>Committee Member Retainers</b>  | \$0              | \$0                |
| <b>Board Leadership Roles</b>  |                  |                    |
| • Board Chair Retainer   | \$12,800         | \$35,000           |
| • Vice Chair Retainer  | \$7,500          | \$15,000           |
| <b>Total Board Cost</b><br><i>(Includes Board Chair, Vice Chair; assumes 8 total directors)</i>    | <b>\$733,100</b> | <b>\$1,405,000</b> |

These changes will align the total program structure and value with competitive market practices and considers the factors outlined on page 2 of this document. Following the changes:

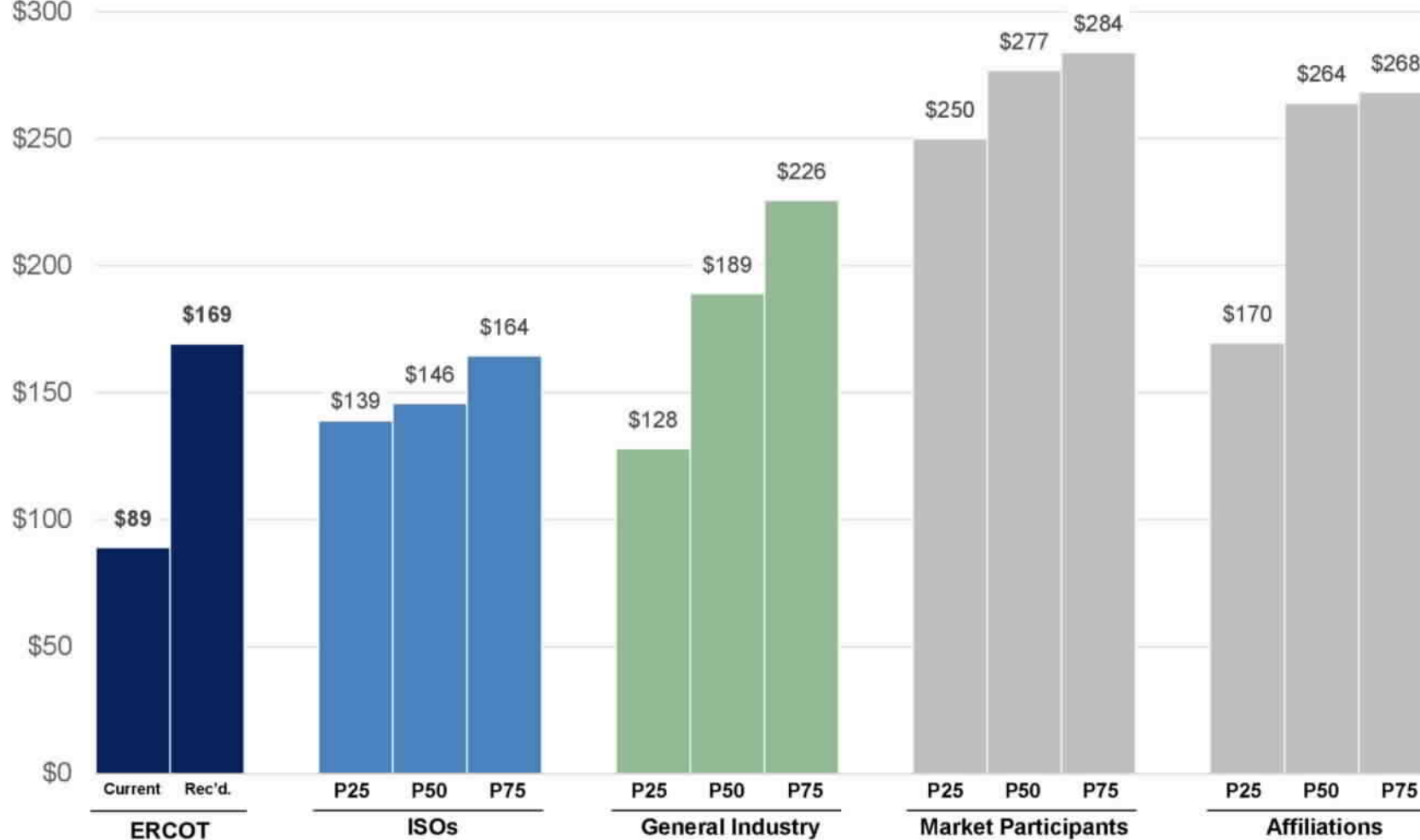
- Average annual compensation per director would be positioned 3% above the 75<sup>th</sup> percentile among the ISO peers
- Retainers for Board and Committee leadership roles would be aligned with market levels
- Total Board Cost would be positioned 9% below the 75<sup>th</sup> percentile among the ISO peers (and 4% below the median)

Comparisons of the ERCOT program (current and recommended) to market references are provided on the following pages.

## ERCOT versus Market References

### Average Annual Compensation per Director

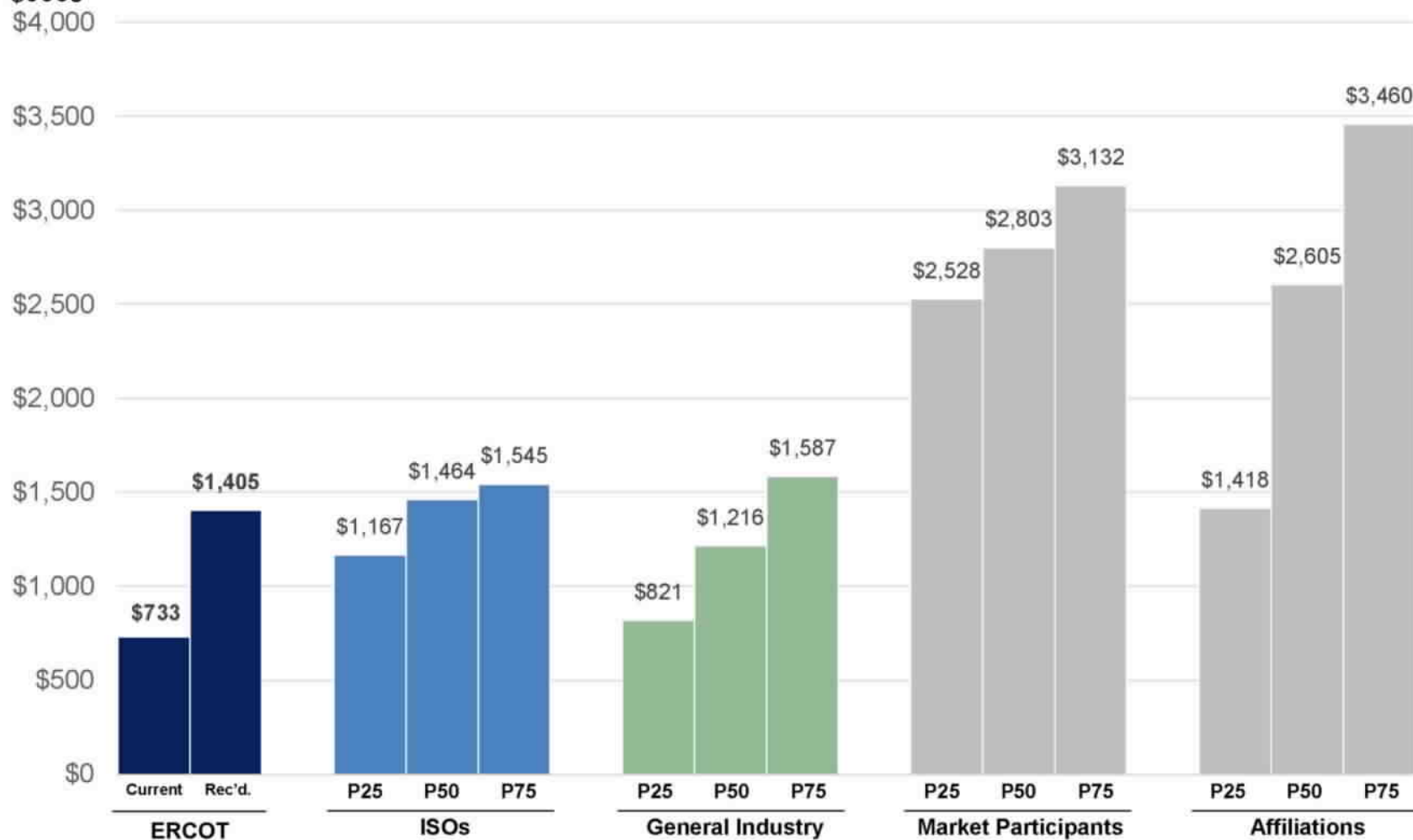
\$000s  
\$300



## ERCOT versus Market References

### Total Board Cost

\$000s



## Appendix A: Detailed Market Observations





# Market Observations

## Compensation Detail – ISO Peers

|   | Revenue (\$MM) | Latest Form 990 Filing | Average Pay per Director |                  | Total Board Cost   |                    |
|---|----------------|------------------------|--------------------------|------------------|--------------------|--------------------|
|   |                |                        | As Disclosed             | Estimated 2023   | As Disclosed       | Estimated 2023     |
| California Independent System Operator (CA ISO) | \$247          | 2019                   | \$76,300                 | \$87,556         | \$381,500          | \$437,780          |
| ISO New England                                 | \$211          | 2020                   | \$131,563                | \$145,866        | \$1,052,500        | \$1,166,926        |
| Midcontinent Independent System Operator (MISO) | \$413          | 2019                   | \$159,453                | \$182,976        | \$1,275,625        | \$1,463,809        |
| New York ISO                                    | \$192          | 2022                   | \$158,917                | \$164,479        | \$1,492,750        | \$1,544,996        |
| Southwest Power Pool                            | \$248          | 2019                   | \$121,182                | \$139,059        | \$1,383,000        | \$1,587,024        |
| PJM Interconnection                             | \$382          | –                      | –                        | –                | –                  | –                  |
| <b>75th Percentile</b>                          | <b>\$348</b>   |                        | <b>\$158,917</b>         | <b>\$164,479</b> | <b>\$1,383,000</b> | <b>\$1,544,996</b> |
| <b>Median</b>                                   | <b>\$247</b>   |                        | <b>\$131,563</b>         | <b>\$145,866</b> | <b>\$1,275,625</b> | <b>\$1,463,809</b> |
| <b>25th Percentile</b>                          | <b>\$220</b>   |                        | <b>\$121,182</b>         | <b>\$139,059</b> | <b>\$1,052,500</b> | <b>\$1,166,926</b> |
| <b>ERCOT (Current)</b>                          | <b>\$350</b>   |                        | <b>\$89,100</b>          | <b>\$89,100</b>  | <b>\$733,100</b>   | <b>\$733,100</b>   |
| <b>Percentile Rank</b>                          | <b>75%</b>     |                        | <b>7%</b>                | <b>1%</b>        | <b>13%</b>         | <b>10%</b>         |
| vs. P75   |                |                        |                          | -46%             |                    | -53%               |
| vs P50  |                |                        |                          | -39%             |                    | -50%               |
| vs P25  |                |                        |                          | -36%             |                    | -37%               |
| <b>ERCOT (Recommended)</b>                      | <b>\$350</b>   |                        |                          | <b>\$169,375</b> |                    | <b>\$1,405,000</b> |
| <b>Percentile Rank</b>                          | <b>75%</b>     |                        |                          | <b>82%</b>       |                    | <b>45%</b>         |
| vs. P75   |                |                        |                          | 3%               |                    | -9%                |
| vs P50  |                |                        |                          | 16%              |                    | -4%                |
| vs P25  |                |                        |                          | 22%              |                    | 20%                |

Notes:  
 ISO peer revenue data from financial reports on ISO websites; most recent year reported  
 ERCOT revenue from management  
 Pay information from latest Form 990 filings; aged 3.50% to 2023  
 Average pay per director exclude board leadership fees, when disclosed  
 Total Board costs includes board leadership fees, when disclosed  
 No public filings were found for PJM Interconnection

# Market Observations

## Program Summary

| Compensation Component    | ERCOT     | ISOs       |                       |             | General Industry |           |             | Market Participants |             | Affiliations |             |
|---------------------------|-----------|------------|-----------------------|-------------|------------------|-----------|-------------|---------------------|-------------|--------------|-------------|
|                           |           | Prevalence | Median                | 75th %ile   | Prevalence       | 25th %ile | Median      | Prevalence          | Median      | Prevalence   | Median      |
| Board Fees                |           |            |                       |             |                  |           |             |                     |             |              |             |
| Annual Retainer           | \$87,000  | –          | –                     | –           | 98%              | \$40,000  | \$55,500    | 100%                | \$112,500   | 100%         | \$102,500   |
| Meeting Fee               | \$0       | –          | –                     | –           | 13%              | –         | \$10,500    | 12%                 | \$13,000    | 0%           | –           |
| Committee Fees            |           |            |                       |             |                  |           |             |                     |             |              |             |
| Audit                     |           |            |                       |             |                  |           |             |                     |             |              |             |
| Chair Retainer            | \$5,600   | –          | –                     | –           | 94%              | \$15,000  | \$20,000    | 94%                 | \$25,000    | 100%         | \$25,000    |
| Member Retainer           | \$0       | –          | –                     | –           | 52%              | \$7,000   | \$9,500     | 41%                 | \$15,000    | 44%          | \$8,500     |
| Meeting Fees              | \$0       | –          | –                     | –           | 14%              | \$1,000   | \$1,400     | 18%                 | \$1,500     | 0%           | –           |
| Compensation              |           |            |                       |             |                  |           |             |                     |             |              |             |
| Chair Retainer            | \$5,600   | –          | –                     | –           | 91%              | \$10,000  | \$15,000    | 94%                 | \$20,000    | 100%         | \$20,000    |
| Member Retainer           | \$0       | –          | –                     | –           | 50%              | \$5,000   | \$6,000     | 24%                 | \$10,000    | 33%          | \$6,000     |
| Meeting Fees              | \$0       | –          | –                     | –           | 14%              | \$1,000   | \$1,225     | 18%                 | \$1,500     | 0%           | –           |
| Governance                |           |            |                       |             |                  |           |             |                     |             |              |             |
| Chair Retainer            | \$5,600   | –          | –                     | –           | 80%              | \$9,000   | \$10,000    | 88%                 | \$15,000    | 100%         | \$15,000    |
| Member Retainer           | \$0       | –          | –                     | –           | 42%              | \$5,000   | \$5,000     | 24%                 | \$10,000    | 33%          | \$5,000     |
| Meeting Fees              | \$0       | –          | –                     | –           | 13%              | \$1,000   | \$1,300     | 18%                 | \$1,500     | 0%           | –           |
| Annual Equity Value       | \$0       | –          | –                     | –           | 95%              | \$60,000  | \$103,353   | 88%                 | \$155,000   | 100%         | \$140,000   |
| Non-Executive Chairman    | \$12,800  | –          | –                     | –           | 57%              | \$30,000  | \$50,000    | 41%                 | \$142,500   | 78%          | \$110,000   |
| Vice Chairman             | \$7,500   | –          | –                     | –           | 2%               | \$35,000  | \$50,000    | 0%                  | –           | 0%           | –           |
| Lead Director             | –         | –          | –                     | –           | 38%              | \$9,500   | \$15,000    | 71%                 | \$30,000    | 22%          | \$45,000    |
| Total Board Compensation  |           |            |                       |             |                  |           |             |                     |             |              |             |
| All Directors             | \$733,100 |            | \$1,463,809           | \$1,544,996 |                  | \$821,250 | \$1,215,616 |                     | \$2,802,500 |              | \$2,605,142 |
| Independent Directors     | 8         |            | Range: 5-11/Avg. 9.33 |             |                  | 6         | 6           |                     | 10          |              | 9           |
| Average (excl Chair/Lead) | \$89,100  |            | \$145,866             | \$164,479   |                  | \$127,917 | \$189,063   |                     | \$276,875   |              | \$264,091   |

**Notes:**

Tabular data represent the individual components of pay at the 25th, 50th and 75th percentiles, and are not additive

Calculations excludes companies without prevalence and additional compensation

ISO comparator group excluded from analysis due to lack of pay component disclosure in Form 990s

# Market Observations

## Average Compensation Detail

|                                     | TTM Revenue (\$Mn) | Cash Compensation    |                                 |                |                                |            | Annual Equity | Total Compensation |
|-------------------------------------|--------------------|----------------------|---------------------------------|----------------|--------------------------------|------------|---------------|--------------------|
|                                     |                    | Annual Cash Retainer | Board Meeting Fees <sup>1</sup> | Committee Fees | Board Meeting & Committee Fees | Total Cash |               |                    |
| ERCOT                               | \$350              | \$87,000             | –                               | –              | \$2,100                        | \$89,100   | –             | \$89,100           |
| INDEPENDENT SYSTEM OPERATORS (ISOs) |                    |                      |                                 |                |                                |            |               |                    |
| 75th Percentile                     | \$348              | –                    | –                               | –              | –                              | \$164,479  | –             | \$164,479          |
| Median                              | \$247              | –                    | –                               | –              | –                              | \$145,866  | –             | \$145,866          |
| 25th Percentile                     | \$220              | –                    | –                               | –              | –                              | \$139,059  | –             | \$139,059          |
| GENERAL INDUSTRY                    |                    |                      |                                 |                |                                |            |               |                    |
| 75th Percentile                     | \$761              | \$75,000             | –                               | \$17,073       | \$18,000                       | \$90,608   | \$137,900     | \$225,813          |
| Median                              | \$525              | \$55,500             | \$10,500                        | \$11,833       | \$12,500                       | \$74,083   | \$103,353     | \$189,063          |
| 25th Percentile                     | \$331              | \$40,000             | –                               | \$6,295        | \$7,359                        | \$55,657   | \$60,000      | \$127,917          |
| MARKET PARTICIPANTS                 |                    |                      |                                 |                |                                |            |               |                    |
| 75th Percentile                     | \$19,228           | \$115,000            | –                               | \$14,091       | \$14,091                       | \$129,091  | \$160,000     | \$284,000          |
| Median                              | \$15,310           | \$112,500            | \$13,000                        | \$11,500       | \$11,667                       | \$124,000  | \$155,000     | \$276,875          |
| 25th Percentile                     | \$9,321            | \$100,000            | –                               | \$7,308        | \$9,000                        | \$120,000  | \$130,000     | \$250,000          |
| AFFILIATIONS                        |                    |                      |                                 |                |                                |            |               |                    |
| 75th Percentile                     | \$19,640           | \$110,000            | –                               | \$12,778       | \$18,000                       | \$118,000  | \$153,000     | \$268,278          |
| Median                              | \$5,851            | \$102,500            | –                               | \$11,818       | \$12,500                       | \$114,091  | \$140,000     | \$264,091          |
| 25th Percentile                     | \$514              | \$65,000             | –                               | \$8,000        | \$7,359                        | \$70,222   | \$100,000     | \$169,688          |

Notes:

<sup>1</sup> Median shown in table calculated excluding \$0's (most prevalent)

Note: Tabular data represent the individual components of pay at the 25th, 50th and 75th percentiles, and are not additive  
ISO comparator group excluded from analysis due to lack of pay component disclosure in Form 990s

# Market Observations

## Board Leadership

- A strong majority of all comparators disclose formal Board leadership roles for which additional compensation is paid; the most prevalent form of additional compensation is a defined cash retainer
- Compensation for Board leadership roles is typically “tailored” by companies to reflect the varied nature and scope of the role which may differ materially from one company to another; benchmarking results should be interpreted and applied accordingly
  - It is common for Non-Executive Chairman pay to be significantly higher than Lead Director pay
- Amid limited disclosures, only two ISO peers appear to have additional retainers for Board leadership roles
  - New York ISO: \$50,000 for Chair, \$12,500 for Vice-Chair
  - Southwest Power Pool: apparent \$50,000 for Chair

|                    | ISOs     | General Industry | Market Participants | Affiliations |
|--------------------|----------|------------------|---------------------|--------------|
| 75th Percentile    | –        | \$98,438         | \$171,250           | \$170,000    |
| Median             | \$50,000 | \$50,000         | \$142,500           | \$110,000    |
| 25th Percentile    | –        | \$30,000         | \$100,000           | \$48,375     |
| ERCOT - Chair      | \$12,800 |                  |                     |              |
| ERCOT - Vice Chair | \$7,500  |                  |                     |              |

## Appendix B: Study Methodology





# Study Methodology

## *Defining the Market for Director Talent*

- Developing a comparator group for ERCOT is challenging; our approach to define the market for director talent considered multiple perspectives
- The table below summarizes four comparator groups that reflect different market perspectives and corresponding sources of compensation data used in our analysis
- The ISO and General Industry comparator groups reflect the primary market references, with the Market Participants and Affiliated Companies serving as broader market references

|   | Description   | Data Sources   |
|---|---|--|
| <b>ISO Peers<br/>(n=5)</b>                    | <ul style="list-style-type: none"> <li>■ Independent system operators (ISOs) across the U.S. for which public compensation data were available <ul style="list-style-type: none"> <li>– Revenue: P50=\$247MM; P75=\$348MM</li> </ul> </li> </ul>  | <ul style="list-style-type: none"> <li>■ Most recent Form 990 filings, where available <ul style="list-style-type: none"> <li>– The timing of Form 990 filings varies by ISO, ranging from 2019 to 2022</li> <li>– No Form 990 filings were found for PJM Interconnection</li> </ul> </li> </ul> |
| <b>General Industry Companies<br/>(n=126)</b> | <ul style="list-style-type: none"> <li>■ A group of comparably-sized, publicly-traded companies <ul style="list-style-type: none"> <li>– Revenue &lt;\$1B (P50=\$518MM)</li> </ul> </li> </ul>  | <ul style="list-style-type: none"> <li>■ Annual proxy statement disclosures of non-employee director compensation programs <ul style="list-style-type: none"> <li>– Most recent proxy filings (2022)</li> </ul> </li> </ul>  |
| <b>Market Participants<br/>(n=17)</b>         | <ul style="list-style-type: none"> <li>■ Primarily publicly-traded companies that are market participants in ERCOT <ul style="list-style-type: none"> <li>– Reflects companies used by management for compensation benchmarking</li> <li>– Revenue: range from \$2.25MM to \$31.5B (P50=\$15.3B)</li> </ul> </li> </ul> | <ul style="list-style-type: none"> <li>■ Annual proxy statement disclosures of non-employee director compensation programs <ul style="list-style-type: none"> <li>– Most recent proxy filings (2022)</li> </ul> </li> </ul>  |
| <b>ERCOT Director Affiliations<br/>(n=9)</b>  | <ul style="list-style-type: none"> <li>■ Publicly-traded companies with which the ERCOT independent directors have affiliations <ul style="list-style-type: none"> <li>– Revenue: range from \$75MM to \$21.7B (P50=\$5.85B)</li> </ul> </li> </ul>   | <ul style="list-style-type: none"> <li>■ Annual proxy statement disclosures of non-employee director compensation programs <ul style="list-style-type: none"> <li>– Most recent proxy filings (2022)</li> </ul> </li> </ul>  |

# Study Methodology

## *Data Analysis*

**Meridian applied consistent methodologies and assumptions to develop an appropriate basis for comparison, based on available sources of market data.**

### **ISOs**

- Information regarding the quantum of pay to the director pay programs was collected from the most recent Form 990 filings for the five ISOs
  - The timing of Form 990 filings varies by ISO, ranging from 2019 to 2022
- Estimated current compensation levels were developed by “aging” disclosed compensation values using a 3.50% annual growth rate
  - Slightly lower than the 12-year average annual growth rate (3.72%) for companies with revenue of \$50 million to \$500 million, as reported in published NACD Director Compensation Reports

### **Other Comparators**

- Each comparator company’s actual Board and Committee meeting schedule
- Equity awards valued as of a common date:
  - Full-value shares/units reflect their face value
  - Annual grants of stock options were valued using a Black-Scholes methodology
- Excludes any compensation paid for special committees or activities
- Director compensation data were not aged



**ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.**  
**BOARD OF DIRECTORS RESOLUTION**

WHEREAS, pursuant to Public Utility Regulatory Act (PURA) Section 39.151(g-2), members of the Board of Directors (Board) of Electric Reliability Council of Texas, Inc. (ERCOT) are entitled to receive a salary for their service;

WHEREAS, ERCOT Bylaws Section 10.1(b) provides that the Board "shall have the authority to fix the compensation of its Selected Directors," subject to the review and approval of the Public Utility Commission of Texas (PUCT) pursuant to PUCT Substantive Rule 25.362(g)(5);

WHEREAS, compensation levels for Selected Directors are set forth in Appendix A of the Board Policies and Procedures, which may be amended by the Board at any time pursuant to Section 11.1 thereof;

WHEREAS, Director compensation levels were last changed in July 2012;

WHEREAS, the Board has engaged Meridian Compensation Partners (Meridian) as a compensation consultant, and based on a benchmarking analysis using multiple data sources and market perspectives, including other Independent System Operators (ISOs), comparably-sized general industry companies, Market Participants, and public companies with which ERCOT's directors are affiliated and other considerations including the high volume and complexity of work, recruitment considerations, and external optics and standards, Meridian, in consultation with the Human Resources and Governance (HR&G) Committee of the Board, has recommended an increase to Director compensation levels as set forth in the changes to Appendix A of the Board Policies and Procedures attached hereto as **Attachment A**, to be effective July 1, 2023;

WHEREAS, after due consideration of the alternatives, the HR&G Committee has recommended that the Board approve the proposed increase to Director compensation levels as recommended by Meridian, subject to the review and approval of the PUCT; and

WHEREAS, the Board deems it desirable and in the best interest of ERCOT to accept the HR&G Committee's recommendation to approve the proposed increase to Director compensation levels as recommended by Meridian, subject to the review and approval of the PUCT;

THEREFORE, BE IT RESOLVED, that the Board hereby approves the increase to Director compensation levels as set forth in the changes to Appendix A of the Board Policies and Procedures attached hereto as **Attachment A**, to be effective July 1, 2023, subject to the review and approval of the PUCT;





THEREFORE, BE IT FURTHER RESOLVED, that upon approval by the PUCT of the increase in Director compensation levels, ERCOT staff is authorized to amend the Board Policies and Procedures by revising Appendix A as reflected in **Attachment A**, to be effective July 1, 2023.

**CORPORATE SECRETARY'S CERTIFICATE**

I, Jonathan M. Levine, Assistant Corporate Secretary of ERCOT, do hereby certify that, at its June 20, 2023 meeting, the Board passed a motion approving the above Resolution by unanimous voice vote with no abstentions.

IN WITNESS WHEREOF, I have hereunto set my hand this 21<sup>st</sup> day of June, 2023.

A handwritten signature in cursive script, appearing to read "Jonathan M. Levine", written over a horizontal line.

Jonathan M. Levine  
Assistant Corporate Secretary

## Board and Residential Consumer TAC Representative Compensation

| Role                                    | Base Compensation                    | Added Compensation   |
|---|--------------------------------------|--|
| Selected Director                       | <del>\$87,000</del> 160,000 per year | --   |
| Board Chair                             | --                                   | <del>\$12,800</del> 35,000 per year                                      |
| Board Vice Chair                        | --                                   | <del>\$7,500</del> 15,000 per year                                       |
| Board Committee Chair                   | --                                   | <del>\$5,600</del> 25,000 per year                                       |
| Residential Consumer TAC Representative | \$3,000 per month                    | \$500 per meeting for up to 3 TAC or TAC subcommittee meetings per month |